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March 2, 2010

The Honorable Michael Bishop
Senate Majority Leader
Michigan Senate
P.O. Box 30036
Lansing, Michigan 48908

Dear Senator Bishop,

While we support and appreciate your intent to help mitigate the rising costs of health insurance on our colleges, we have a number of concerns with the approach taken toward that end in SB 1046.

First, 80% of the premium of a certain health care plan can be more than 100% of the premium of another plan depending on factors like: 1. "overall design" – i.e. traditional indemnity, PPO, Point of Service, or HMO; 2. plan design – i.e. deductibles, co-pays, and coinsurance; 3. network – i.e. service providers included (doctors, hospitals, etc.); and 4. carrier/plan provider. It is often a valuable incentive to provide a "no premium copay" option for a low cost plan over 20% for a high cost plan.

Second, in our opinion, if in the long run the employer's cost is to be controlled, then the most important goal is to control total premium cost. A strategy of simply increasing (or even initiating) a premium contribution requirement for participants in the long run does not do this and can have the opposite effect. That is it may create a sense of "since I now have to pay for it I am going to use it more". Utilization more than anything else drives total premiums up.

Third, affected employers should be able to offer plan options with lower <u>total</u> premiums (because of plan design) without "penalizing" the participant choosing that option. In other words, there should be some sort of "total dollar cost" criterion - obviously varying at individual, 2-person, and family coverage levels within any option – and only those options which exceed an applicable total premium cost threshold should require a premium contribution by participants. In fact, certain employers might actually see an increase in cost if this either drives participants to higher priced options or encourages excessive utilization.

Fourth, the legislation describes high deductible plans as requiring a health saving account (HSA). Such plans can properly feature a "health reimbursement arrangement" in lieu of HSAs and still meet IRS code and other mandates; therefore the legislation is in this regard unnecessarily limiting.

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Fifth, the legislation continues to define covered "medical plans" as including optical, dental, and prescription benefits. This is problematic - especially in the case of dental and vision. The latter benefits are typically separate from "core medical". Also prescription is sometimes "carved out" from medical - with a separate carrier (often a PBM or Pharmacy Benefits Manager arrangement.) In the case where any of these involve separate plans, the issue of the premium and a premium contribution by the participant is not so clear. For example it is often the case where dental is separate, that even an employer who requires a contribution to the premium for the medical will not have a premium contribution requirement for dental – which of course is typically much lower priced in terms of total premium as compared to medical/prescription.

Sixth, any reduction in individual employer control over all compensation and benefit costs could be problematic, and ultimately more costly. For example, a union might want more in pay or increases in another benefit area to compensate for a higher premium contribution, and this might not be the preference of the employer from a "trade-off" perspective.

Seventh, this legislation may actually encourage unions not to settle contracts since it would not take effect until a new contract is completed.

Finally, this legislation impedes the ability for our colleges to manage finances and control costs at the local levels. Our institutions are constitutionally supervised and controlled by locally elected boards of trustees, and they should have the ability to decide what is best for their particular institution. Furthermore, this legislation on its own will not result in any direct savings to the state. The only way the state will see actual savings is through reductions in our appropriation, and in that event, we ask that we be left the ability to manage such a cut at the local level.

We would be happy to continue discussions with you or your staff, as you see appropriate.

Sincerely,

Michael Hansen, President